Student Loan Servicing Alliance
2210 Mt. Vernon Avenue, Suite 207
Alexandria, VA 22301

September 14, 2022

VIA ELECTRONIC SUBMISSION

Board of Governors of the Federal Reserve System
Docket No. R-1775, RIN 7100-AG34
regs.comments@federalreserve.gov

RE: **NPRM Implementing the Adjustable Interest Rate (LIBOR) Act | Docket No. R-1775 | RIN 7100-AG34**

Dear Board of Governors:

We sincerely appreciate the opportunity to provide additional perspective in connection with our August 29, 2022 letter in response to the Notice of Proposed Rulemaking ("NPRM") published in the *Federal Register* on July 29, 2022, which requested that the Board select Average SOFR as the SOFR-based Board selected benchmark replacement rate to align with the legislative treatment of FFELP SAP provided for in the Adjustable Interest Rate (LIBOR) Act (the "LIBOR Act"). SLSA is a non-profit trade association that represents federal and private student loan servicers, who collectively service nearly all student loans in the country. Our members are preparing for the transition away from LIBOR by utilizing the work and guidance from federal regulators as well as from the Alternative Reference Rates Committee.

Specifically, we wanted to follow up on two items: (1) How to define the terminology we presented in our August 29th letter ("student loan financings that are predominantly secured by loans made under the Federal Family Education Loan Program")? and (2) Which SOFR-based benchmark replacement rate calculation should be used for such financings? Please find our responses below.

Definition of "FFELP ABS"

We respectfully request that with respect to defining "student loan financings that are predominantly secured by loans made under the Federal Family Education Loan Program", the Board refer to such financings as "FFELP ABS" and follow the approach previously recommended by the Alternative Reference Rate Committee ("ARRC") in its *ARRC Recommendations Regarding More Robust Fallback Language for New Issuance of LIBOR*

Securitizations release[1] (the "Release"). On p. 13 of the Release, the ARRC recommended adding a pre-cessation trigger for securitizations that was triggered upon an "benchmark transition event" when the "Asset Replacement Percentage[2] is greater than [50]%, as reported in the most recent servicer report." The ARRC specifically noted in the Release that this trigger was "intended to minimize basis risk between securities and the assets underlying these securities by providing that if a certain threshold is met whereby a set percentage of the underlying assets have converted to the Replacement Benchmark or have been replaced by assets bearing interest based on the Replacement Benchmark, the securities will then also convert to the Replacement Benchmark." We respectfully request that Board follow the ARRC's recommendation and use the same definition of "Asset Replacement Percentage" used in its Release to define "FFELP ABS" for the purposes of the NPRM. Specifically, we request that "FFELP ABS" be defined as asset-backed securities whose collateral pool contains greater than 50% of FFELP loans, as reported in the most recent servicer report.

<u>Calculation of SOFR-based Benchmark Replacement Rate for FFELP ABS</u>

Ideally, the SOFR-based Benchmark Replacement Rate for FFELP ABS would mirror the treatment outlined in Section 109 of the LIBOR Act. Nevertheless, we recognize the Board's intention for uniformity, and therefore, with respect to the calculation of the SOFR-based Benchmark Replacement Rate for FFELP ABS, we respectfully request the following:

1. For FFELP ABS indexed to one-month tenors of LIBOR, the benchmark replacement shall be 30-day Average SOFR plus 0.11448 percent for one-month LIBOR (i.e. the applicable tenor spread adjustment for one-month LIBOR identified in the NPRM for a covered GSE contract); and

2. For FFELP ABS indexed to three-month tenors of LIBOR, the benchmark replacement shall be 90-day Average SOFR plus 0.26161 percent for three-month LIBOR (i.e. the applicable tenor spread adjustment for three-month LIBOR identified in the NPRM for a covered GSE contract).

3. For FFELP ABS indexed to another tenor of LIBOR besides one-month LIBOR or three-month LIBOR, the benchmark replacement shall be 30-day Average SOFR plus the applicable spread adjustment identified in the Section 253.4(c) of the NPRM.[3]

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[1] https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/Securitization_Fallback_Language.pdfPre-cessation.

[2] "Asset Replacement Percentage" is defined in the release as "on any date of calculation, a fraction (expressed as a percentage) where the numerator is the outstanding principal balance of the assets that were indexed to the Benchmark Replacement [for the Corresponding Tenor] as of such calculation date and the denominator is the outstanding principal balance of the assets as of such calculation date."

[3] While the vast majority of FFELP ABS are indexed to either one-month LIBOR or three-month LIBOR, there may be a small population of auction rate securities which securitize FFELP loans whose securities may be tied to a LIBOR tenor other than one-month or three-month LIBOR. We would propose this approach for this small subset of FFELP ABS.

This approach largely follows the approach taken by the Board in the NPRM for the calculation of benchmark replacement rates for covered GSEs contracts. We strongly believe that this approach will alleviate much of our concerns regarding the mismatch in funding rates between the FFELP assets and FFELP ABS and prevent any potential disruptions in bond interest payments, negative credit rating actions or introduction of new risks to holders.

We thank you for the opportunity to provide our industry expertise and are happy to discuss any clarifications that may be helpful. If you would like to discuss the comments provided, please contact me at (202)955-6055 or scott.buchanan@slsa.net.

Respectfully submitted,

C. Tapscott Buchanan
Executive Director